

**New Lothrop Area Public Schools
New Lothrop, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

New Lothrop Area Public Schools

New Lothrop, Michigan

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June 30, 2006

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New Lothrop Area Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
New Lothrop Area Public Schools
New Lothrop, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Lothrop Area Public Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of New Lothrop Area Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of New Lothrop Area Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2006 on our consideration of New Lothrop Area Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope and testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The administration's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise New Lothrop Area Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 23, 2006

This section of New Lothrop Area Public Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

New Lothrop Area Public Schools, a K-12 school district located in Shiawassee County, Michigan, issues its financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the New Lothrop Area Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand New Lothrop Area Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund - the General Fund and the Capital Projects Fund individually, and the Special Revenue Funds and Debt Service Funds collectively as other nonmajor governmental funds. The remaining statements, the Statement of Fiduciary Net Assets, and the Statement of Changes in Fiduciary Net Assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The District-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2005 and 2006:

Condensed Statement of Net Assets
as of June 30, 2005 and 2006

	Governmental Activities 2005	Governmental Activities 2006
Assets		
Current and Other Assets	\$ 1,616,690	\$ 17,265,299
Capital Assets	<u>3,747,636</u>	<u>4,511,254</u>
Total Assets	5,364,326	21,776,553
Liabilities		
Current Liabilities	727,133	968,282
Noncurrent Liabilities	<u>81,955</u>	<u>16,361,997</u>
Total Liabilities	809,088	17,330,279
Net Assets		
Invested in capital assets, net of related debt	3,583,909	3,074,005
Restricted	29,463	517,340
Unrestricted	<u>941,866</u>	<u>854,929</u>
Total Net Assets	<u>\$ 4,555,238</u>	<u>\$ 4,446,274</u>

New Lothrop Area Public Schools

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Results of Operations:

For the fiscal year ended June 30, 2005 and 2006, the District-wide results of operations were:

Condensed Statement of Activities Year Ended June 30, 2005 and 2006

	Governmental Activities 2005	Governmental Activities 2006
Revenues:		
Program Revenues		
Charges for Service	\$ 244,480	\$ 271,547
Operating Grants	361,424	288,407
General Revenues		
Property Taxes	797,683	356,733
State School Aid-unrestricted	5,105,298	5,307,342
Other	60,513	142,590
Total Revenues	6,569,398	6,366,619
Functions/Program Expenses:		
Instruction	3,515,514	3,536,061
Supporting services	1,885,953	2,001,339
Food service	262,943	269,775
Athletics	229,761	259,703
Interest on long-term debt	45,196	148,217
Unallocated depreciation	261,811	260,488
Total Expenses	6,201,178	6,475,583
Change in Net Assets	\$ 368,220	\$ (108,964)

Analysis of Results of Operations:

During fiscal year ended June 30, 2006, the District's net assets decreased by \$108,964. Several factors which caused the decrease are discussed in the following sections.

A. Governmental Fund Operating Results

The District's expenditures from governmental fund operations exceeded revenues by \$61,571 for the fiscal year ended June 30, 2006, mainly due to debt related items including repayment of debt, issuance of new debt, and significantly more accrued interest payable on new debt. Further discussion of the District's operating results is available in the section entitled "Results of 2005-2006 Operations" located on the following pages.

B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2005-2006, the District added assets of \$1,024,106, and district assets depreciated in the amount of \$260,488, causing a net increase in net district assets of \$763,618.

New Lothrop Area Public Schools

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2006

C. Long-Term Debt Activities

The District increased its net long-term debt obligation during 2005-2006 by making principal payments amounting to \$132,555 and issuing additional debt of \$16,280,000 in the form of the 2006 School Building and Site Bonds, and accrued severance pay increased by \$5,436. As a result of these activities, net district long-term debt liabilities increased by \$16,152,881.

Results of 2005-2006 Operations

During fiscal year ended June 30, 2006, the District net assets decreased by \$108,964. A few additional significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the New Lothrop Area Public Schools such as: Salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's expenditures from General Fund operations exceeded revenues by \$61,571 for the fiscal year ended June 30, 2006. The General Fund as of June 30, 2006, has a fund balance of \$929,168 or 16.1% of expenditures for the 2005-2006 fiscal year.

B. Debt Service Fund Operations

The Debt Service Funds consist of four separate debt funds as follows: 1976 Debt, 1991 Debt, Durant Debt, and 2006 Debt. The Debt Service Funds are set up to collect taxes and state revenues and pay annual debt payments. At June 30, 2006, the Debt Service Funds had \$695,268 in fund equity available for future bond payments.

The School District levies taxes to make debt payment obligations. If taxes levied are not sufficient the School District will borrow funds from the Michigan School Bond Loan Fund (SBLF). Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations. In the fiscal year ended June 30, 2006, the School District did not borrow anything from the SBLF. The District also paid off the remaining 1991 and 1996 Bonds. The District also had accrued severance pay outstanding at June 30, 2006, which totaled \$98,495.

The District had changes to their long-term debt obligations as follows:

	Principal Balance <u>June 30, 2005</u>	Principal Additions	Principal Payments	Principal Balance <u>June 30, 2006</u>
2006 Bonds	\$ -	\$ 16,280,000	\$ -	\$ 16,280,000
1991 D Refunding Bonds	90,000	-	90,000	-0-
1996 Energy Conservation Improvement Bonds	40,000	-	40,000	-0-
Durant Bonds	<u>33,727</u>	<u>-</u>	<u>2,555</u>	<u>31,172</u>
Total long-term bond obligations	<u>\$ 163,727</u>	<u>\$ 16,280,000</u>	<u>\$ 132,555</u>	<u>\$ 16,311,172</u>

New Lothrop Area Public Schools

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2006

C. School Service Funds

The New Lothrop Area Public Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program activities. In 2005-2006 the Food Service Fund had revenues of \$277,459 and expenditures of \$269,775. The Food Service Fund is self-supporting. The Food Service Fund had a fund balance of \$24,256.

The Athletics Fund includes all costs for athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. Transportation cost is accounted for in the General Fund. In 2005-2006 the Athletics Fund had revenues of \$259,703 and expenditures of \$259,703. The Athletics Fund generated \$38,048 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must be a balanced budget and the District contributed \$221,655 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$0.

D. Net Investment in Capital Assets

The District's net investment in capital assets increased by \$872,012 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2005</u>	<u>Net Change</u>	<u>Balance June 30, 2006</u>
Capital assets	\$ 9,544,025	\$ 1,024,106	\$ 10,568,131
Less: accumulated depreciation	<u>(5,796,389)</u>	<u>(152,094)</u>	<u>(5,948,483)</u>
Net investment in capital outlay	<u>\$ 3,747,636</u>	<u>\$ 872,012</u>	<u>\$ 4,619,648</u>

IMPORTANT ECONOMIC FACTORS

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- State of Michigan State Aid Act per student foundation allowance.
- Student Enrollment - Blended at 75 percent of prior year's fall count and 25 percent of prior year's winter count.
- The District's non-homestead property valuation.

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The New Lothrop Area Public Schools foundation allowance was \$6,875 per student for the 2005-2006 school year.

C. Student Enrollment

The District's student enrollment for the fall count of 2005-2006 was 788 students. The District's enrollment decreased slightly from the prior school year's student count.

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2005-2006	788	+7
2004-2005	781	(8)
2003-2004	789	-

D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 15.9744 mills (after Headlee Rollback) of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2005-2006 fiscal year was approximately \$127,000. The non-homestead tax levy increased by approximately 2.4% over the prior year.

E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2005-2006 the District's debt millage levy was 2.4 mills, which generated revenue of approximately \$229,000.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Revenues and Other Sources, Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	5,629,299	5,716,384	5,719,062	1.6%	0.05%
2004-2005	5,582,680	5,553,048	5,599,207	0.3%	0.8%
2003-2004	5,487,927	5,583,695	5,562,132	1.4%	(0.4)%

General Fund Expenditures and Other Uses Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	5,871,266	5,800,849	5,780,633	1.5%	0.3%
2004-2005	5,699,091	5,730,537	5,676,970	0.4%	0.9%
2003-2004	5,566,397	5,610,948	5,556,063	0.2%	1.0%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, New Lothrop Area Public Schools amends its budget periodically during the school year. The June 2006 budget amendment was the final budget for the fiscal year.

New Lothrop Area Public Schools

Administration's Discussion and Analysis For Fiscal Year Ended June 30, 2006

Revenue Change from Original to Final Budget:

		<u>Percent</u>
Total Revenues Original Budget	\$ 5,629,299	100.0
Total Revenues Final Budget	<u>5,716,384</u>	<u>101.5</u>
Increase in Budget Revenues	<u>\$ 87,085</u>	<u>1.5</u>

The District's final actual general fund revenues differed from the final budget by \$2,678, a variance of 0.05% from the final budget.

Expenditures Change from Original to Final Budget:

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 5,871,266	100.0
Total Expenditures Final Budget	<u>5,800,849</u>	<u>98.8</u>
Decrease in Budget Expenditures	<u>\$(70,417)</u>	<u>(1.2)</u>

The District's actual expenditures were less than the final budget by \$20,216 or 0.3 percent.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year is 25 percent and 75 percent of the February 2005 and September 2005 student counts, respectively. The 2007 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 90 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2007 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office, New Lothrop Area Public Schools, 9825 Easton Road, New Lothrop, Michigan 48460.

BASIC FINANCIAL STATEMENTS

New Lothrop Area Public Schools

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,297,287
Due from other governmental units	1,000,469
Inventories	3,898
Total current assets	4,301,654
Noncurrent assets	
Investments	12,963,645
Capital assets not being depreciated	912,831
Capital assets, net of accumulated depreciation	3,598,423
Total noncurrent assets	17,474,899
TOTAL ASSETS	21,776,553
LIABILITIES	
Current liabilities	
Accounts payable	220,493
Accrued payroll	324,441
Other accrued liabilities	197,750
Accrued interest payable	173,675
Current portion of compensated absences	49,247
Current portion of long-term debt	2,676
Total current liabilities	968,282
Noncurrent liabilities	
Accrued interest payable	4,253
Noncurrent portion of compensated absences	49,248
Noncurrent portion of long-term debt	16,308,496
Total noncurrent liabilities	16,361,997
TOTAL LIABILITIES	17,330,279
NET ASSETS	
Invested in capital assets, net of related debt	3,074,005
Restricted for debt service	517,340
Unrestricted	854,929
TOTAL NET ASSETS	\$ 4,446,274

See accompanying notes to financial statements.

New Lothrop Area Public Schools

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	
Governmental activities				
Instruction	\$ 3,536,061	\$ 35,476	\$ 184,819	\$ (3,315,766)
Supporting services	2,001,339	-	24,153	(1,977,186)
Food Service	269,775	198,023	79,435	7,683
Athletics	259,703	38,048	-	(221,655)
Interest on long-term debt	148,217	-	-	(148,217)
Unallocated depreciation	260,488	-	-	(260,488)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 6,475,583	\$ 271,547	\$ 288,407	(5,915,629)
General revenues				
Property taxes				356,733
State school aid - unrestricted				5,307,342
Investment Earnings				115,224
Miscellaneous				27,366
TOTAL GENERAL REVENUES				5,806,665
CHANGE IN NET ASSETS				(108,964)
Net assets, beginning of year				4,555,238
Net assets, end of year				\$ 4,446,274

See accompanying notes to financial statements.

New Lothrop Area Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 490,175	\$ 2,103,431	\$ 703,681	\$ 3,297,287
Investments	-	12,963,645	-	12,963,645
Due from other governmental units	990,868	-	9,601	1,000,469
Due from other funds	-	-	9,361	9,361
Inventories	-	-	3,898	3,898
TOTAL ASSETS	\$ 1,481,043	\$ 15,067,076	\$ 726,541	\$ 17,274,660
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 24,237	\$ 193,153	\$ 3,103	\$ 220,493
Accrued payroll	324,441	-	-	324,441
Due to other funds	9,361	-	-	9,361
Other accrued liabilities	193,836	-	3,914	197,750
TOTAL LIABILITIES	551,875	193,153	7,017	752,045
FUND BALANCE				
Reserved for				
Inventories	-	-	3,898	3,898
Debt service	-	-	695,268	695,268
Unreserved				
Undesignated, reported in				
General fund	929,168	-	-	929,168
Special revenue funds	-	-	20,358	20,358
Capital project fund	-	14,873,923	-	14,873,923
TOTAL FUND BALANCE	929,168	14,873,923	719,524	16,522,615
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,481,043	\$ 15,067,076	\$ 726,541	\$ 17,274,660

See accompanying notes to financial statements.

New Lothrop Area Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH
THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds \$ 16,522,615

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 10,459,737	
Accumulated depreciation is	<u>(5,948,483)</u>	
		4,511,254

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	16,311,172	
Compensated absences	98,495	
Accrued interest payable on long-term debt	<u>177,928</u>	
		<u>(16,587,595)</u>

Net assets of governmental activities \$ 4,446,274

See accompanying notes to financial statements.

New Lothrop Area Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES				
Local sources	\$ 206,454	\$ 92,582	\$ 471,833	\$ 770,869
State sources	5,360,432	-	13,438	5,373,870
Federal sources	95,173	-	69,704	164,877
OTHER FINANCING SOURCES				
Bond proceeds	-	15,996,846	283,154	16,280,000
Bond premium	-	-	237,479	237,479
Transfers from other funds	-	-	222,317	222,317
Payments from other Districts	57,003	-	-	57,003
TOTAL REVENUES AND OTHER FINANCING SOURCES	5,719,062	16,089,428	1,297,925	23,106,415
EXPENDITURES				
Current				
Instruction	3,517,639	-	-	3,517,639
Supporting services	2,001,339	-	-	2,001,339
Food service	-	-	269,775	269,775
Athletics	-	-	259,703	259,703
Capital outlay	-	1,037,092	-	1,037,092
Debt service	40,000	-	99,827	139,827
OTHER FINANCING USES				
Bond issuance costs	-	206,026	-	206,026
Transfers to other funds	221,655	-	662	222,317
TOTAL EXPENDITURES AND OTHER FINANCING USES	5,780,633	1,243,118	629,967	7,653,718
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(61,571)	14,846,310	667,958	15,452,697
Fund balances, beginning of year	990,739	27,613	51,566	1,069,918
Fund balances, end of year	<u>\$ 929,168</u>	<u>\$ 14,873,923</u>	<u>\$ 719,524</u>	<u>\$ 16,522,615</u>

See accompanying notes to financial statements.

New Lothrop Area Public Schools

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

June 30, 2006

Net change in fund balances - total governmental funds **\$ 15,452,697**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,024,106	
Depreciation expense	<u>(260,488)</u>	
Excess of depreciation expense over capital outlay		763,618

Items resulting from the repayment of long-term debt and borrowing of long-term debt is reported as expenditures, other financing uses, and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings and other liabilities increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	132,555	
Bond proceeds	<u>(16,280,000)</u>	
		(16,147,445)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(172,398)	
(Increase) in compensated absences	<u>(5,436)</u>	
		<u>(177,834)</u>

Change in net assets of governmental activities **\$ (108,964)**

See accompanying notes to financial statements.

New Lothrop Area Public Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash	<u>\$ 1,395</u>	<u>\$ 52,750</u>
LIABILITIES		
Due to individuals	-	<u>\$ 52,750</u>
NET ASSETS		
Held in trust for private purposes	<u>\$ 1,395</u>	

See accompanying notes to financial statements.

New Lothrop Area Public Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2006

	Private Purpose Trust Funds
ADDITIONS	
Investment earnings	
Interest	\$ 48
DEDUCTIONS	-
CHANGE IN NET ASSETS	48
Net assets - beginning of year	1,347
Net assets - end of year	\$ 1,395

See accompanying notes to financial statements.

New Lothrop Area Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of New Lothrop Area Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of New Lothrop Area Public Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. Capital Projects Fund - The Capital Projects Fund is used to account for financial resources used to acquire capital acquisitions related to the 2006 General Obligation Bond proceeds.

New Lothrop Area Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. All unexpended appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Three (3) supplemental appropriations were made during the year with the final amendments being approved June 19, 2006.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market accounts, and pooled investment funds. Cash equivalents are recorded at market value.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments, related to the fiscal year ended June 30, 2006, to be paid in July and August 2006. Of the total amount of \$1,000,469 due from other governmental units, \$975,088 consists of State Aid and the remaining \$25,381 from other governmental grants.

8. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	50 years
Equipment, furniture and other assets	10 - 20 years
Vehicles	8 years

The District has no assets that would be classified as infrastructure assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability.

12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Funds for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied.

The District levies taxes of \$15.9744 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$2.40 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in September 2005 and February 2005. The average calculation was weighted 75% for the September 2005 count and 25% for the February 2005 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

New Lothrop Area Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

16. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Interfund activity is netted as part of the reconciliation to the district-wide financial statements.

17. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds.

18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being actions 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District's deposits was \$316,605 and the bank balance was \$597,993, of which \$176,350 was covered by federal deposit insurance. The balance of \$421,643 was uninsured and uncollateralized. The District had \$100 of imprest cash on hand.

Investments

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
MILAF Plus	\$ 1,354,692	\$ 1,354,692	<12 months
JP Morgan Treasury Money Market	1,680,035	1,680,035	1 day
U.S. Treasury Bills	1,291,909	1,291,909	182 days
U.S. Treasury Note	2,259,258	2,259,258	730 days
Federal Home Loan Bonds	522,877	522,877	760 days
Federal Home Loan Mortgage	5,520,440	5,520,440	1,304 days
Federal National Mortgage Association	<u>3,369,161</u>	<u>3,369,161</u>	1,380 days
	<u>\$15,998,372</u>	<u>\$15,998,372</u>	

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the District's investment in the uncategorized pooled investments with MILAF and all U.S. Governmental investment vehicles were rated AAA by Standard and Poor's. The other uncategorized pooled investments were not rated.

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

New Lothrop Area Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer or backer. The Board policy limits investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board approved policy.

As of June 30, 2006, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 3,297,287	\$ 54,145	\$ 3,351,432
Investments	<u>12,963,645</u>	<u>-</u>	<u>12,963,645</u>
	<u>\$16,260,932</u>	<u>\$ 54,145</u>	<u>\$16,315,077</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

NOTE C: FLEXIBLE BENEFITS PLAN

In October 1996 the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan is available to all employees who are eligible to have health coverage under the employer's health insurance plan. The plan permits them to waive health insurance coverage from the District and receive a cash benefit in lieu of such health insurance.

The Plan is administered by New Lothrop Area Public Schools.

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2006
Capital assets, not being depreciated				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Construction in progress	<u>-</u>	<u>906,831</u>	<u>-</u>	<u>906,831</u>
Total capital assets not being depreciated	6,000	906,831	-0-	912,831
Capital assets, being depreciated				
Land Improvements	145,300	-	-	145,300
Buildings and additions	7,604,150	-	-	7,604,150
Equipment, furniture, and other assets	1,226,992	-	-	1,226,992
Vehicles	<u>561,583</u>	<u>117,275</u>	<u>(108,394)</u>	<u>570,464</u>
Total capital assets being depreciated	9,538,025	117,275	(108,394)	9,546,906

New Lothrop Area Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: CAPITAL ASSETS - CONTINUED

	Balance July 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2006
Less accumulated depreciation for:				
Land improvements	\$(88,300)	\$(4,000)	\$ -	\$(92,300)
Buildings and additions	(4,560,704)	(148,180)	-	(4,708,884)
Equipment, furniture, and other assets	(743,146)	(69,728)	-	(812,874)
Vehicles	(404,239)	(38,580)	108,394	(334,425)
Total accumulated depreciation	(5,796,389)	(260,488)	108,394	(5,948,483)
Total capital assets being depreciated	3,741,636	(143,213)	-0-	3,598,423
Capital assets, net	\$ 3,747,636	\$ 763,618	\$ -0-	\$ 4,511,254

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due within One Year
2006 School Building and Site Bonds	\$ -	\$16,280,000	\$ -	\$16,280,000	\$ -
1991D Refunding Bonds	90,000	-	90,000	-0-	-
1996 Energy Conservation Improvement Bonds	40,000	-	40,000	-0-	-
1998 Durant Resolution Bonds	33,727	-	2,555	31,172	2,676
Compensated Absences	93,059	5,436	-	98,495	49,247
	<u>\$ 256,786</u>	<u>\$16,285,436</u>	<u>\$ 132,555</u>	<u>\$16,409,667</u>	<u>\$ 51,923</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation

\$16,280,000 Building and Site Bonds dated February 9, 2006, due in annual installments ranging from \$380,000 to \$650,000 through May 1, 2035, with interest of 3.5 percent to 5.0 percent, payable semi-annually. \$16,280,000

Resolution

\$52,791 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments ranging from \$2,555 to \$3,538 with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The next payment will be paid on May 15, 2007, on a schedule specified by the State of Michigan. 31,172

\$16,311,172

Compensated Absences

Sick Leave - In recognition of services to the District, a sick leave payment will be made upon termination to eligible employees according to their respective employment contracts or past District practice.

New Lothrop Area Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

Compensated Absences - continued

Vacation Payable - In recognition of services to the District, any accumulated unused vacation days payment will be made upon termination to eligible employees according to past District practice. This payment will be paid on all unused vacation days at the employee's rate of pay at time of termination.

The sick and vacation liabilities, including the related payroll taxes which has been recorded in the district-wide financial statements is \$98,495.

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,676	\$ 1,030	\$ -	\$ 878,322
2008	2,804	903	380,000	715,375
2009	2,938	769	425,000	702,075
2010	3,078	629	475,000	687,200
2011	12,759	4,736	525,000	670,575
2012-2016	6,917	498	2,750,000	3,043,687
2017-2021	-	-	2,925,000	2,474,200
2022-2026	-	-	3,100,000	1,835,019
2027-2031	-	-	3,125,000	1,112,500
2032-2036	-	-	2,575,000	323,750
	<u>\$ 31,172</u>	<u>\$ 8,565</u>	<u>\$16,280,000</u>	<u>\$12,442,703</u>

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006, are as follows:

Due from general fund to:

Nonmajor governmental funds \$ 9,361

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE G: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:

General fund	\$ 221,655
Nonmajor governmental fund	<u>662</u>
	<u>\$ 222,317</u>

New Lothrop Area Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE H: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006, was \$3,439,840 of which \$2,905,288 was for members who have elected the MIP option; the District's total payroll was \$3,466,654.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987, to December 31, 1989, and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated wage; 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2006	\$ 112,389	\$ 550,380	\$ 662,769
2005	109,952	494,431	604,383
2004	110,923	445,052	555,975

New Lothrop Area Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2006	4.0 %	16.0 %
2005	4.0	14.4
2004	4.0	13.0

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2006:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for Debt Service	<u>\$ 517,340</u>

NOTE J: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the fund balance reserves as of June 30, 2006:

Special Revenue Fund	
Food Services	
Reserved for inventories	\$ 3,898
Debt Service Funds	
Reserved for debt service	<u>695,268</u>
	<u>\$ 699,166</u>

NOTE K: RISK MANAGEMENT

The District also participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, liability, inland marine, crime, auto, umbrella excess liability, boilers and machinery, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

New Lothrop Area Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. New Lothrop Area Public Schools, a nonplaintiff District, was awarded \$52,791 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the Financial Statements, the District's budgeted expenditures in the General Fund have been adopted and shown at the functional classification level, and at the total fund level for the special revenue funds.

During the year ended June 30, 2006, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Basic programs			
Instruction			
Secondary	\$ 1,366,986	\$ 1,376,635	\$ 9,649
Preschool	30,850	31,374	524
Added Needs			
Special education	287,116	294,720	7,604
Vocational education	94,167	98,418	4,251
General Administration			
Executive administration	317,823	336,877	19,054
School administration	325,593	334,014	8,421
Other Supporting Services			
Technology	143,504	145,828	2,324
Special Revenue Funds			
Food Service Fund	244,933	269,775	24,842

New Lothrop Area Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE N: CONTRACT COMMITMENTS

The District has entered into contracts related to the acquisition, construction, and remodeling of various school building projects that were not completed at June 30, 2006. The total contractual commitments outstanding at June 30, 2006 totaled \$776,161. The District's remaining bond proceeds (i.e., fund balance) along with future anticipated investment earnings are expected to be sufficient to cover these commitments.

NOTE O: BONDED CONSTRUCTION FUNDS

The Capital Project Fund of the District includes the capital projects activities funded in part by the 2006 School Building and Site General Obligation Bonds. The remaining funding for the activities recorded within the Capital Project Fund is funded by local appropriations from the General Fund, and other local dollars (i.e., interest, etc.) For these projects recorded within the Capital Project Fund, the District has complied with the applicable provisions of Section 1351 (1) of the Revised School Code in the current year.

REQUIRED SUPPLEMENTARY INFORMATION

New Lothrop Area Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 206,551	\$ 202,864	\$ 206,454	\$ 3,590
State sources	5,263,884	5,354,573	5,360,432	5,859
Federal sources	91,937	93,420	95,173	1,753
OTHER FINANCING SOURCES				
Payments from other Districts	66,927	65,527	57,003	(8,524)
TOTAL REVENUES AND OTHER FINANCING SOURCES	5,629,299	5,716,384	5,719,062	2,678
EXPENDITURES				
INSTRUCTION				
Basic programs				
Elementary	1,660,724	1,621,879	1,603,614	18,265
Secondary	1,401,406	1,366,986	1,376,635	(9,649)
Preschool	30,850	30,850	31,374	(524)
Total basic programs	3,092,980	3,019,715	3,011,623	8,092
Added needs				
Special education	286,216	287,116	294,720	(7,604)
At-risk program	37,101	37,452	37,451	1
Compensatory education	82,249	77,765	75,427	2,338
Vocational education	91,914	94,167	98,418	(4,251)
Total added needs	497,480	496,500	506,016	(9,516)
TOTAL INSTRUCTION	3,590,460	3,516,215	3,517,639	(1,424)
SUPPORTING SERVICES				
Student services				
Guidance services	67,926	69,278	68,288	990
Other student services	63,976	63,586	61,975	1,611
Total student services	131,902	132,864	130,263	2,601
Instructional staff				
Improvement of instruction	3,200	3,200	610	2,590
Media services	113,349	116,112	111,748	4,364
Supervision and direction	76,330	78,998	73,175	5,823
Total instructional staff	192,879	198,310	185,533	12,777

New Lothrop Area Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
SUPPORTING SERVICES - CONTINUED				
General administration				
Board of education	\$ 4,335	\$ 5,150	\$ 4,626	\$ 524
Executive administration	308,090	317,823	336,877	(19,054)
Total general administration	312,425	322,973	341,503	(18,530)
School administration	323,590	325,593	334,014	(8,421)
Business				
Fiscal services	69,623	81,861	79,718	2,143
Operations and maintenance	558,999	571,545	559,089	12,456
Transportation	264,315	231,369	225,391	5,978
Other supporting services				
Technology	142,671	143,504	145,828	(2,324)
TOTAL SUPPORTING SERVICES	1,996,404	2,008,019	2,001,339	6,680
DEBT SERVICE	40,000	40,000	40,000	-0-
OTHER FINANCING USES				
Transfers to other funds	244,402	236,615	221,655	14,960
TOTAL EXPENDITURES AND OTHER FINANCING USES	5,871,266	5,800,849	5,780,633	20,216
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(241,967)	(84,465)	(61,571)	22,894
Fund balance, beginning of year	990,739	990,739	990,739	-0-
Fund balance, end of year	\$ 748,772	\$ 906,274	\$ 929,168	\$ 22,894

OTHER SUPPLEMENTARY INFORMATION

New Lothrop Area Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue Funds		Debt	
	Food Service	Athletics	1976 Debt	1991 Debt
ASSETS				
Cash and cash equivalents	\$ 13,860	\$ -	\$ -	\$ 168,680
Due from other governmental units	9,601	-	-	-
Due from other funds	-	3,914	-	5,447
Inventory	3,898	-	-	-
TOTAL ASSETS	\$ 27,359	\$ 3,914	\$ -0-	\$ 174,127
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 3,103	\$ -	\$ -	\$ -
Other accrued liabilities	-	3,914	-	-
TOTAL LIABILITIES	3,103	3,914	-0-	-0-
FUND BALANCES				
Reserved for				
Inventories	3,898	-	-	-
Debt service	-	-	-	174,127
Unreserved				
Undesignated, reported in				
Special revenue funds	20,358	-	-	-
TOTAL FUND BALANCES	24,256	-0-	-0-	174,127
TOTAL LIABILITIES AND FUND BALANCES	\$ 27,359	\$ 3,914	\$ -0-	\$ 174,127

Service Funds		
Durant Fund	2006 Debt	Total
\$ -	\$ 521,141	\$ 703,681
-	-	9,601
-	-	9,361
-	-	3,898
<u>\$ -0-</u>	<u>\$ 521,141</u>	<u>\$ 726,541</u>
\$ -	\$ -	\$ 3,103
-	-	3,914
-0-	-0-	7,017
-	-	3,898
-	521,141	695,268
-	-	20,358
-0-	521,141	719,524
<u>\$ -0-</u>	<u>\$ 521,141</u>	<u>\$ 726,541</u>

New Lothrop Area Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

Year ended June 30, 2006

	Special Revenue Funds		Debt	
	Food Service	Athletics	1976 Debt	1991 Debt
REVENUES				
Local sources	\$ 198,024	\$ 38,048	\$ -	\$ 235,253
State sources	9,731	-	-	-
Federal sources	69,704	-	-	-
OTHER FINANCING SOURCES				
Bond proceeds	-	-	-	-
Bond premium	-	-	-	-
Transfers from other funds	-	221,655	-	662
TOTAL REVENUES AND OTHER FINANCING SOURCES	277,459	259,703	-0-	235,915
EXPENDITURES				
Current				
Food service	269,775	-	-	-
Athletics	-	259,703	-	-
Debt service	-	-	-	96,120
OTHER FINANCING USES				
Transfers to other funds	-	-	662	-
TOTAL EXPENDITURES	269,775	259,703	662	96,120
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	7,684	-0-	(662)	139,795
Fund balances, beginning of year	16,572	-	662	34,332
Fund balances, end of year	<u>\$ 24,256</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 174,127</u>

Service Funds

Durant Fund	2006 Debt	Total
\$ -	\$ 508	\$ 471,833
3,707	-	13,438
-	-	69,704
-	283,154	283,154
-	237,479	237,479
-	-	222,317
3,707	521,141	1,297,925
-	-	269,775
-	-	259,703
3,707	-	99,827
-	-	662
3,707	-0-	629,967
-	521,141	667,958
-	-	51,566
\$ -0-	\$ 521,141	\$ 719,524

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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Eric J. Glashouwer, CPA



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
New Lothrop Area Public Schools
New Lothrop, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Lothrop Area Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Lothrop Area Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Lothrop Area Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated August 23, 2006.

This report is intended solely for the information and use of the administration and Board of Education of New Lothrop Area Public Schools, the Federal awarding agencies, and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 23, 2006

East Lansing ■ Rochester Hills ■ St. Johns

Principals

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MANAGEMENT LETTER

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To the Board of Education
New Lothrop Area Public Schools
New Lothrop, Michigan

As you know, we have recently completed our audit of the records of New Lothrop Area Public Schools as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The District should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the District may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e. receipts, disbursements, reconciling, etc.). This issue was noted and reported in our prior year audit comments.

While this is a common occurrence in organizations of your size due to the limited number of employees, management should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the District review various areas of operation and consider additional segregation of duties.

2. The District needs to monitor and limit the use of its name and/or employer identification number.

During the course of our audit, it was noted that an organization independent of the District still holds deposit accounts with a local bank under the name and employer identification number of the District. This issue was noted and reported in our prior year audit comments.

We suggest that the District contact the local banks with which it does business and take the necessary steps to have the District's identifying information removed from all accounts not under the control of the District, as recommended in prior years. If the group independent of the District wants to keep the account information the same they should make their records available for annual audit.

3. Budgets should be adopted for all funds and monitored and amended when necessary.

As noted in the basic financial statements, some of the budgeted activities of the District exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds. We also noted various areas of the budget document that were not categorized consistent with the budget reported in the computerized general ledger which was used for reporting purposes in the audited financial statements. This issue was noted and reported in our prior year audit comments.

The Michigan Public Act 621 of 1978, as amended, provides that the District shall not incur expenditures in excess of the amounts appropriated.

We suggest the District monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed. We also suggest the District modify the budget document to more closely reflect the functions as they are reported in the audited financial statements.

4. Bank reconciliations should be compared to the general ledger.

During our audit procedures it was noted that although a bank reconciliation for the Internal Accounts is prepared it is not subsequently compared to the general ledger and the appropriate adjustments are not made to the computerized general ledger when necessary.

Proper bank reconciliations provide internal controls for cash by assuring all receipts and disbursements are recorded properly at the bank and with in the computerized general ledger. We suggest that all bank accounts be reconciled from bank balance to book balance each month and that reconciliations be compared to the general ledger, and also reviewed and approved by a supervisor on a regular basis.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements dated August 23, 2006.

This report is intended solely for the information and use of the Board of Education and administration of New Lothrop Area Public Schools and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 23, 2006